fund of the U.S. Treasury. If these taxes were reduced in line with the program reductions, the potential savings to the federal budget would be cut by 60 percent, to about $10 billion a year. The estimates also assume no offset from reduced income tax receipts as new state and local fees are imposed, nor from increased federal tax expenditures as greater use is made of the tax-free bond market. These offsetting effects could reduce the gross budgetary savings by about one-third.

The Administration proposes major cuts in three of the areas considered here: railroads, with aid to Amtrak eliminated; transit, where all operating aid and some two-thirds of capital assistance would be dropped; and wastewater treatment, where aid would be phased out over the next three years. Spending for most other infrastructure programs would be held below that assumed by the CBO baseline.

NDD-02 REDUCE SUPPORT FOR ENERGY SUPPLY, CONSERVATION, AND THE STRATEGIC PETROLEUM RESERVE

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1987	1988	1989	1990	1991	
Budget Authority	2,650	3,000	3,500	3,800	4,000	17,000
Outlays	1,300	2,450	3,200	3,600	3,850	14,400

The Department of Energy (DOE) supports efforts to develop energy resources, conduct research on new and nonconventional energy-generation technologies, and improve conservation; it also has responsibility for acquiring and storing oil in the Strategic Petroleum Reserve. Most of the federal funding going toward these activities is intended to complement, not substitute for, private-sector investment. Some of the DOE funding, however, is necessary to support regulatory activities; some is deemed important to the nation's security; and some is of a scale that only the public sector can afford. If federal support were withdrawn from all but the most critical activities, outlays could be reduced by $14.4 billion over the 1987-1991 period. This sharp reduction of federal support would affect three main categories in the DOE energy budget: supply, conservation, and the Strategic Petroleum Reserve. This would leave many activities to be funded completely by the private sector as determined by market needs.

The DOE's energy supply activities include two main funding areas that could be eliminated or curtailed: research and development (R&D) and subsidies to nonconventional fuel production. In energy R&D, all support for research programs in fossil fuels, solar and renewable resources, energy science, and miscellaneous other areas could be eliminated, assuming that the private sector would continue to support research efforts that appeared commercially promising. Federal support for civilian research in fission power (except funding for cleaning up uranium mine wastes) would also be eliminated because of this technology's high degree of commercialization and the ability of the private sector to conduct appropriate research. (However, because the private sector could not reasonably be counted on to continue fusion R&D, which has little immediate commercial value, federal funding in this area would continue.) In addition, halting support for nonconventional fuel production would curtail future appropriations (not including the $400 million already earmarked) to develop clean coal technologies. Elimination of appropriations for all energy supply activities would result in estimated outlay savings of $1.23 billion in 1987 and $11.6 billion over the 1987-1991 period. Such savings would be significantly greater than under the Administration's proposed budget, which seeks to reduce but not eliminate federal support in these programs.

In energy conservation, all support for R&D could be curtailed and transferred to the private sector. In addition, grants made to states and local governments to weatherize schools, hospitals, and the homes of low-income families could be curtailed, allowing states to decide whether to continue such support. Total federal outlay savings in these areas would amount to $80 million in 1987 and $1.82 billion over the 1987-1991 period.

DOE is responsible for the construction and maintenance of the Strategic Petroleum Reserve (SPR), and for the acquisition of oil to fill the reserve. The original intent of the SPR, authorized in 1975, was to mitigate the economic problems that can result from full or partial interruption of oil imports to the United States. The SPR will contain roughly 500 million barrels of crude oil by the end of 1986, with 750 million barrels being the eventual goal. Additional unobligated balances of oil acquisition funds would allow DOE to fill the reserve to a level of approximately 520 million barrels. At the 520-million-barrel level, the SPR could meet current U.S. oil import demand for 100 to 125 days (about 30 days of total U.S. demand), with privately held reserves able to meet 35 to 40 days of import demand (about 10 days of total U.S. demand). Today, the U.S. economy depends less on imported petroleum than it did 10 years ago, and oil supplies are abundant and available from various sources. In light of these recent shifts in the oil market (including continuing pressure to reduce prices), further purchases for the SPR could be eliminated or suspended, saving approximately $827 million in outlays over the 1987-1991 period. In addition, planned capital improvements and distribution enhancements to the reserve could be eliminated, saving $151 million over the 1987-1991 period. (This proposal is similar to the Administration's policy initiative, which also seeks to halt funding of the SPR after reaching a capacity of 500 million barrels.)

By reducing federal support in the areas mentioned, many costs would be transferred to states and local agencies or to the private sector. Problems could result if either decided not to fund projects previously backed with federal dollars. For example, research in the area of nuclear plant safety and improvement could lag if federal efforts in this area ceased. Similarly, weatherization of homes of low-income families could be curtailed, forcing hardship on some people. And if, contrary to present expectations, oil prices were to increase and supplies to become short, the federal government's current opportunity to buy oil at low prices would have passed.

NDD-03 ELIMINATE FEDERAL SUBSIDIES TO BUSINESS

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1987	1988	1989	1990	1991	
Budget Authority	1,900	3,500	3,300	3,900	4,300	17,000
Outlays	1,100	2,900	3,900	4,600	5,000	17,500

Nonfarm U.S. businesses receive federal assistance through a wide assortment of grants or subsidized credits. This spending is scattered among many agencies and accounts. The most obvious programs subsidizing nonfarm businesses include the Small Business Administration (SBA), Export-Import Bank (Eximbank), and the Rural Electrification Administration (REA). The list of federal subsidies for business is, however, much longer. The economic development activities of the Economic Development Administration (EDA), the Urban Development Action Grant (UDAG) program, and the Community Development Block Grant (CDBG) program also support business. Besides providing insurance for foreign investment, the Overseas Private Investment Corporation (OPIC) also provides subsidized business loans and loan guarantees.

No unifying vision or strategy underlies these programs. Rather, they emerged one-by-one, as specific markets came under criticism as being unresponsive to certain public needs. Long after the market imperfections that these programs were designed to overcome had been corrected, however, many of them have continued. Advocates of cutting them would also note that many of these programs fail to meet the business development goals set out for them. In a general sense, subsidies for one type of business usually come at the expense of another. Especially in the case of many economic development grants, the federal subsidies often do not create new businesses; instead, they encourage cities and states to compete for the businesses that already exist.

Supporters of these programs, however, often cite a past record of worthwhile actions, and argue that terminating them could result in undue losses to current recipients, most of whom have not experienced any windfall gain because they bought into the business when the subsidies were already capitalized.

Ending these subsidies would save an estimated $1.1 billion in 1987 and $17.5 billion over the five-year period. To save the sums these programs cost, the Congress would have to end all SBA new lending (though management and technical assistance, especially for minority enterprises, could be excepted to continue at a small cost), terminate the Eximbank, cut REA loans and loan guarantees, cut EDA, CDBG, and UDAG grants that directly aid business, and end OPIC loans and loan guarantees. (See also NDD-18, NDD-24, and NDD-25.)

As an alternative to terminating the REA programs, the Congress could reduce program subsidies by charging an up-front fee on new loans to cooperatives to cover costs of loan defaults or other losses. Assessing a fee based on the projected cost to the government of these defaults could reduce the deficit by about $0.7 billion over the 1987-1991 period, and would continue lending to cooperatives at below the market rates.

NDD-04 SCALE BACK NONDEFENSE CONSTRUCTION PROJECTS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority a/	2,200	1,750	1,750	1,800	2,000	9,500
Outlays	800	1,550	1,850	1,950	2,050	8,200

a. In some accounts reductions in construction activity do not reduce budget authority. In addition, reductions from prior-year balances are assumed to reduce budget authority required in 1987.

The federal government currently disburses some $9 billion a year for contracts it awards for nondefense capital improvements. About four-fifths of this amount goes for water, energy, and other natural resource projects, for Veterans Administration (VA) hospitals and nursing homes, and for U.S. Postal Service facilities. A one-third cutback in Executive Branch capital investments, financed either from new funding or unobligated balances on hand at the start of 1987, could produce outlay savings through 1991 in excess of $8 billion. The Congress could provide guidance on how to allocate the cuts or leave such decisions entirely to the Executive Branch. (The estimated cutback excludes costs for administration of public works and funds appropriated to the President for military and economic assistance.)

A one-third cut in the real level of nondefense purchases of lands, structures, services, and equipment that support public works improvements would be much more severe than proposals in the President's budget or than would be effected in the event of a 1987 sequestration under the Balanced Budget Act. Compared with a sequestration, this option proposes a percentage cut four times larger and applies it to a broader base that includes unobligated balances from prior-year funds, federal power authorities, and the U.S. Postal Service. As such, this proposal offers one way of achieving large savings without cutting nondefense human resources activities or defense activities. Moreover, the cutback would improve flexibility in future budgetary decisionmaking, because the federal commitment to projects that require payments over several years would be smaller. In response to reduced funding, agencies would have to reassess capital investment needs, determine which projects have highest priority (on the basis of cost/benefit analysis and other criteria), and apply better approaches to construction management such as those covering design specifications and cost-effectiveness reviews.

In general, opponents of such a cutback maintain that, despite the best of intentions, the reductions would likely apply across the board on a pro rata basis. This would tend to separate program from capital investment decisionmaking, disrupt orderly public works management, and create difficulties for some agencies in meeting mandated obligations to deliver services. For three of the major types of investments potentially affected, arguments for and against a cutback could include the following. 1/

Water and Other Natural Resource Projects. Spending for federal water resource projects (mostly by the Army Corps of Engineers and the Bureau of Reclamation) has declined in real terms in recent years, largely because of an impasse over user fees and cost-sharing policies. Some observers maintain that, if the commercial users and local governments that benefit from these projects are unwilling to pay for them, most projects should be curtailed, if not phased out altogether. In addition, some proponents of a cutback in natural resource construction believe that many projects are not economically feasible, and that the federal government already has too many projects that will require substantial resources in the future for maintenance and repair. On the other side, opponents of deep funding cuts maintain that the age of current facilities justifies continuation of current funding even though the balance between new projects and major repairs might shift. Opponents also argue that cutbacks would foreclose an opportunity to help two troubled industries, inland barge transport and farming. (Other approaches to cutting funds that support federal construction of energy and water resource projects include NDD-01, NDD-02, NDD-11, and NDD-17.)

Veterans Facilities. Funds for construction of VA hospitals and major health care facilities, including amounts from prior appropriations, now total about $1.8 billion. Inpatient hospital care is provided on a space-available basis, with first priority given to veterans with service-connected injuries or illnesses. Proponents of reduced VA construction funding believe the system

1. For comprehensive information on federal investments in water resource projects and veterans health care facilities, see CBO, *Veterans Administration Health Care: Planning for Future Years* (April 1984), *The Federal Budget for Public Works Infrastructure* (July 1985), *Efficient Investments in Water Resources: Issues and Options* (August 1983), and *Current Cost-Sharing and Financing Policies for Federal and State Water Resources Development* (July 1983).

is already large enough to accommodate most of the hospital and nursing home needs of veterans with service-connected problems and those unable to defray the costs of care under a means test such as that used for food stamps or veterans' pensions. Moreover, a large funding cutback, proponents argue, would still allow new construction in some areas where top-priority needs cannot be accommodated within existing facilities. Advocates of less construction also point to the lower operating costs available if planning for nursing care relied more on the use of both community homes operated on a contract basis and homes operated by state agencies. (For related measures see NDD-31, NDD-32, and NDD-33.)

Opponents view a limitation on construction as eventually reducing health care alternatives for some nonservice-disabled veterans, who could be denied local access to tax-supported VA care. This problem, they hold, would become more acute as World War II veterans continue to age. Others point out that both the VA's medical school affiliations and the supply of reserve beds for military needs in time of war or national emergency might decline.

Postal Facilities. The annual level of new commitments for postal facilities has increased dramatically in recent years, rising from under $0.3 billion in 1981 to an estimated $0.7 billion for 1986. The Postal Service has scheduled a decline, with future commitments to drop to $0.6 billion by 1991. But some advocates believe an even lower level of future commitments may be wise, in the face of changing communications technology and continuing loss of business to private carriers. If subsidized postage for certain mailers were eliminated and use of the Postal Service diminished, less construction might eventually follow (see NDD-19).

Opponents believe that a mandated cut would take away independence granted by law to the Postal Service, hamper efficient delivery of service in some localities, and curtail continued gains in labor productivity. In addition, any resulting deficit reduction would be temporary, because postage rates, which are set at levels that cover expected construction and other requirements, would eventually be adjusted to reflect lower construction costs. In the near term, however, a cutback in new projects would improve the Postal Service's cash balances (because disbursements drop faster than depreciated costs incorporated in postage rates) and would thus lower the federal deficit.

NDD-05 REDUCE FUNDING FOR FOREIGN AID

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	1,416	1,601	1,661	1,725	1,794	8,198
Outlays	716	974	1,231	1,429	1,555	5,905

Aid from the United States to recipient foreign countries is composed of international security assistance and development aid. The two types of aid programs differ mainly in what purposes they serve and how they are justified to the Congress. Security assistance includes both economic and military aid intended to bolster nations of political and strategic importance to the United States. To do so, security assistance programs give general--and often unconditional--budgetary support (appropriated in the Economic Support Fund) for a wide range of economic policies, as well as grants and loans to finance purchases of U.S. military equipment and support services. Development assistance, in contrast, is intended to improve conditions for the world's poor and meet economic development needs. Aid in this category is provided through the World Bank and other multilateral regional development banks, and as bilateral development aid administered by the Agency for International Development and the P.L. 480 Food Aid program.

Between 1980 and 1986, outlays for foreign aid have grown from $8.4 billion to an estimated $14.2 billion. While development assistance has only kept pace with inflation, however, security assistance has experienced more than 5 percent real growth per year during that period. The upward trend in total foreign aid spending could be reversed by cutting all programs in nominal terms by 10 percent over the next five years. This would reduce outlays by $0.7 billion in 1987 and $5.9 billion over the next five years. In contrast, the President's budget recommends a cut of $0.8 billion in outlays for development assistance, but an increase of $2.2 billion in security assistance, yielding an increase in total foreign aid spending of $1.4 billion over the next five years.

Critics of foreign aid charge that, through the years, development assistance has gone through passing fads, from infrastructure development, to basic human needs, to economic restructuring; few efforts, they claim, have produced lasting benefit to the recipient countries. For example, some recipient countries that in the past had readily accepted development assistance to help fund large-scale projects are now questioning the long-run value of many such investments. Indeed, skeptics contend that economic aid is often counterproductive, simply postponing the development of markets, political institutions, and economic policies that are essential to economic progress. Moreover, since World Bank replenishments will be negotiated in 1987, multilateral development aid can be cut without the United States abrogating any binding agreements. Opponents of security assistance claim that U.S. foreign policy and national security objectives dominate the determination of funding allocations, in some cases causing the United States to subsidize failing economic policies. Loans for military sales have burdened some recipients, diverting foreign exchange into debt service.

Advocates of this aid, on the other hand, warn that the timing of the United States' budgetary deliberations do not coincide with military, political, and economic problems throughout the world. Basing foreign assistance on short-term budgetary needs could compel the United States to take much more costly measures over the long term. Others argue that development aid has played a vital role in improving, among other things, agricultural, health, and educational conditions in developing countries. The increasingly important role of the World Bank in encouraging developing countries to shift economic policies, highlighted by a recent U.S. initiative to augment the World Bank's role in ameliorating the international debt crisis, is also stated as a major justification of support to multilateral development institutions. Finally, opponents of a curb on foreign aid note that the U.S. contribution is already small. The United States contributes only 0.2 percent of gross national product, compared with an average of 0.5 percent of GNP for industrialized countries in general.

NDD-06 RECOVER THE ADMINISTRATIVE COSTS OF SELECTED REGULATORY AGENCIES

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1987	1988	1989	1990	1991	
USDA	132	270	415	424	433	1,674
FDA	58	119	184	189	193	743
FCC	18	40	61	62	64	245
CFTC	9	18	27	28	29	111

The activities of many regulatory agencies benefit regulated industries as well as the general public. Many of these agencies are funded primarily from general revenues. In contrast, other regulatory agencies charge fees and assessments that raise enough income to meet or exceed the levels of their expenditures. Registration and filing fees for securities, for example, produce receipts that exceed the Securities and Exchange Commission's expenses. Similar cost recoveries could be applied to selected regulatory activities--specifically, those of the U.S. Department of Agriculture (USDA), the Food and Drug Administration (FDA), the Federal Communications Commission (FCC), and the Commodity Futures Trading Commission (CFTC). These activities provide specific benefits to identifiable recipients, who could be charged for these benefits in a cost-effective manner. The costs of regulatory activities that benefit only the general public--dissemination of information, for example--would be left unrecovered. For those areas in which cost recovery is considered, a three-year phase-in is analyzed.

When the USDA inspects the processing of meat, poultry, and other agricultural products, it provides a quality control system for the food industry free of charge. Recovering the full costs of the department's four food inspection services could save nearly $1.7 billion over five years. In its budgetary proposals for 1986 and 1987, the Administration proposed similar license and inspection fees, which would be paid by processors to the Treasury.

By assuring doctors and consumers of product quality, the FDA's regulation of drug safety and efficacy benefits the pharmaceutical industry. The costs of the FDA's drug regulation could be recovered from pharmaceutical companies, saving $743 million over five years. In 1985, the FDA itself proposed that the costs of new drug applications be recovered through fees, but this practice has not been implemented. The costs of other drug-related activities--manufacturing plant inspections, for example--could be recovered through a general assessment on pharmaceutical company sales.

The FCC could recover the costs it incurs in assigning licenses to mass media and private radio operators. These franchises are valuable, since they are awarded from a transmitting spectrum that is physically limited, yet they are awarded at no charge to applicants. The FCC spends a great deal of time and other resources on considering applications. Were licenses to be awarded instead by auction, administrative reviews might become unnecessary; this would lower costs. (The FCC has recently proposed a limited experiment with auctions.) In fact, revenue from bids for the government franchises could far exceed the FCC's current costs. Another cost-recovery approach could be to establish a broadcast fee that would capture a portion of the franchise value of existing mass media franchises. Cost recovery using either approach would be $245 million over five years. (This estimate does not include the common carrier costs of the FCC, which are already exceeded by telephone excise taxes.)

Finally, the CFTC supports public confidence in futures markets by regulating abusive trade practices. The Securities Exchange Commission (SEC) performs the same function for the securities markets, while recovering its full costs. If the cost recovery approach were applied to the regulation of commodity futures, $111 million could be saved over five years. Fees could be established for each futures contract, at an average cost per contract of about $0.16.

The clear public benefits these regulatory activities yield might justify financing from general revenues. In addition, many industries oppose regulation, claiming that it constrains profits by setting overly stringent requirements and by needlessly delaying market entry. Cost recovery would add insult to injury for industries that take this position. On the other hand, many of the regulatory activities cited here are carried out with the general support of the regulated industries. With budgetary constraints threatening to curb spending on regulation, a shift to user financing might assure the continuation of regulatory activities, or even permit an increase. An example might be new FDA user fees, which could speed the time it takes the FDA to process new drug applications. This would only be the case, however, if user fees were dedicated specifically to the agencies' accounts.

NDD-07 CHARGE STATE MEMBER BANKS AND BANK HOLDING COMPANIES FOR THE COSTS OF FEDERAL RESERVE SUPERVISION AND REGULATION

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1987	1988	1989	1990	1991	
Addition to CBO Baseline	0.2	0.2	0.2	0.2	0.3	1.1

Depository institutions--banks, savings and loan associations, and credit unions--bear costs and receive benefits from government policies. To carry out monetary policy more effectively, the Federal Reserve requires all depository institutions above a certain size to maintain reserve deposits with Federal Reserve Banks. Because no interest is paid on these deposits, this policy imposes costs on depository institutions. On the other hand, the tax code contains several preferences--allowing excess bad debt reserves, for example--that reduce the tax liabilities of depository institutions. In addition, the Federal Reserve's discount lending often carries an element of subsidy. This savings proposal does not directly address any of the costs and benefits from monetary and tax policies, but instead focuses on the supervision and regulation of depository institutions.

Five separate government agencies carry out the supervision and regulation of depository institutions. The Federal Reserve supervises and regulates bank holding companies, state-chartered banks that are members of the Federal Reserve System, and international banking corporations. The other depository institutions--nationally chartered banks, state-chartered banks that are not members of the Federal Reserve System, savings and loan associations, and credit unions--are supervised and regulated by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board with the Federal Savings and Loan Insurance Corporation, and the National Credit Union Administration. The latter four agencies cover all or nearly all of their administrative costs with fees received from depository institutions, as do all state banking agencies, but the Federal Reserve does not recover any of the costs of its supervisory and regulatory activities.

The complex structure of the federal government's banking supervision has often been criticized as needlessly elaborate, most recently by the Bush Commission in 1984. Savings could result over the long run by consolidating the activities of these agencies. In the near future, savings could be obtained by requiring the Federal Reserve to recover the costs of its supervisory and regulatory activities. The savings would be $1.13 billion over five years. (This estimate excludes the Federal Reserve's costs of monitoring reserve accounts.)

Supporters of this approach hold that effective supervision and regulation benefit the banking industry. Supervision serves banks by alerting management to potential problems with investments. It limits risk-taking by banks that hold their investors' and other banks' funds, and bolsters the confidence of consumers of banking services. Regulation restricts entry by potential competitors. Since all other depository institutions pay for these benefits, this savings proposal would simply extend a generally accepted practice to the banks served by the Federal Reserve. It might also provide an incentive to limit the growth rate of the Federal Reserve's supervision and regulation costs.

Not all of the Federal Reserve's regulatory activities, however, are of clear benefit to banks. Consumer protection regulations, for example, probably reduce bank profits. State member banks also argue that they should not have to pay for the costs of both state and national supervision. This implies that a federal purpose in supervision of state-chartered banks is not clear. Finally, the banks argue that, because they lose revenue from having to place a portion of their assets in non-interest-bearing reserves, they should not have to pay the costs of supervision. All other depository institutions maintain non-interest-bearing reserve deposits, however, and also cover the costs of supervision and regulation. The offsetting benefits from tax preferences and discount lending should also be considered in this calculation.

If cost recovery were adopted, assessments and fees could be set to reflect the Federal Reserve's actual costs. The Comptroller of the Currency, for example, charges assessments on a declining percentage scale of total assets, reflecting the scale economies in labor costs from examining larger banks. Flat fees are charged for merger, branching, and other application reviews. For the Federal Reserve to cover its costs, the assessment for a bank of median size would be about $90,000 in 1987.

Such savings are classified as a revenue gain because of the current accounting treatment of the Federal Reserve's administrative expenses.

The Federal Reserve earns roughly $18 billion a year in interest payments made on its portfolio, which consists primarily of Treasury securities. It deducts its administrative expenses from these profits and returns the balance to the Treasury. The Treasury classifies these payments as miscellaneous receipts on the revenue side of the budget. As a result, any reduction in the Federal Reserve's administrative expenses or any increase in its receipts would be scored as a revenue gain. 1/

1. See CBO, *The Budgetary Status of the Federal Reserve System* (February 1985).

NDD-09 ESTABLISH USER FEES FOR CERTAIN COAST GUARD SERVICES

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	820	830	830	840	860	4,180
Outlays	820	830	830	840	860	4,180

User fees could be established for U.S. Coast Guard services that provide direct benefits to commercial mariners and recreational boaters. These programs, totaling about $1 billion in annual federal spending, include aids to navigation, search-and-rescue activities, marine safety, and marine environmental protection.[1/] In 1987, $820 million would be saved. Over the 1987-1991 period, full recovery of associated federal costs from mariners and boaters would yield $4.6 billion to offset Coast Guard outlays.

The Coast Guard provides substantial, uncompensated benefits to civilian navigation, especially to the commercial shipping industry. Without navigational aids, such as buoys and other channel markings, commercial shipping in U.S. inland and coastal waters would be considerably more difficult, hazardous, and costly than it is now. The capital and operating costs of these aids could be recovered from the shipping industry, just as highway users pay for the costs of roads. The Coast Guard also conducts search-and-rescue operations for lost or disabled vessels; about three-fourths of such activities assist recreational boaters. (Opponents of user financing for the Coast Guard's life-saving services see these as historical responsibilities of the federal government.) The costs of these services could be recovered through registration fees for recreational boats and other types of fees for commercial vessels. These Coast Guard services can be treated as comparable to emergency medical care and user fees to health insurance premiums.

User fees might, however, be difficult to collect from recreational boats, and they would increase costs for the currently depressed fishing industry. (If Coast Guard fees for fishing vessels were phased in over five

1. See CBO, *Charging for Federal Services* (April 1983).

years to avoid imposing too sudden a financial burden on this industry, the federal budgetary savings would be reduced by about $400 million for 1987 through 1991.)

The Administration proposes Coast Guard user fees of $240 million in 1987 and $480 million a year starting in 1988. Most of this sum would be collected as registration fees from all classes of boaters--the typical recreational boater would pay $20 per year, for example. A lower level of fees was called for by the 1986 budget resolution.

NDD-10 ELIMINATE CARGO PREFERENCE FOR NONMILITARY SHIPMENTS

Savings from CBO Baseline	Annual Savings (millions of dollars) 1987	1988	1989	1990	1991	Cumulative Five-Year Savings
Budget Authority	500	550	600	600	600	2,850
Outlays	500	550	600	600	600	2,850

The federal government provides both indirect and direct subsidies to the U.S.-flag merchant marine--that is, vessels built, owned, and operated by U.S. firms and engaged in international trade. A major form of indirect aid is provided through so-called "cargo preference" legislation, which requires that all U.S. military cargo and one-half of other government freight be carried in U.S.-flag vessels. Most nonmilitary shipments consist of bulk cargo, including agricultural exports and shipments for the Strategic Petroleum Reserve (SPR). (See also NDD-02.) The Food Security Act of 1985 has just extended cargo preference to 75 percent of U.S. agricultural aid. Because the average costs to build and operate U.S. vessels are some two to three times those for non-U.S. ships, this guaranteed market increases government shipping costs substantially. Eliminating cargo preferences for nonmilitary shipments would reduce federal spending by about $500 million in 1987 and $2.85 billion over the 1987-1991 period.

Critics of the program believe that it raises government transportation costs unduly while subsidizing inefficient carriers. On the other side, the loss of nonmilitary government cargo would force some higher-cost U.S. vessels out of business, thus somewhat reducing the nation's military sealift capacity in an emergency. This effect would be minor, however, since bulk cargo vessels, which are the main beneficiaries of cargo preference, cannot easily be adapted for military sealift. Some of these vessels may have been built using federal loan guarantees. There is thus the possibility of loan defaults, which could offset these cargo preference savings for the first couple of years.

The Maritime Administration also provides U.S. shipping with direct assistance--more than $400 million in 1985--through subsidies that make up the difference between the operating costs of foreign and U.S. shipping.

(These operating subsidies are difficult to change, since they are provided under long-term contracts.) Some vessels receive subsidies under both the cargo preference and operating subsidy programs. As an alternative to changing cargo preference laws, this double subsidy could be eliminated, thus reducing the operating subsidy by perhaps $20 million a year and $125 million over the 1987-1991 period.

The Administration proposes to roll back the 75 percent cargo preference level to 50 percent. This would save an estimated $100 million in 1987 and $250 million in 1991. The Administration also calls for eliminating the double subsidy from the operating subsidy program.